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ARTICLE APPEARED ON PAGE 28

WALL STREET JOURNAL
11 FEBRUARY 1982

The Prospect of Less Soviet Oil for East Europe

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A recent study by the Central Intelligence Agency's Office of Economic Research projected a chilling scenario if the Soviet Union were to reduce subsidized oil deliveries to its Eastern European allies by 10%. A few weeks ago, Moscow announced that it was going to do just that.

Beginning this past January, "subsidized" (about one-third below world market prices) exports of Soviet oil to Eastern Europe would be reduced from 80 million to 70 million metric tons annually between 1982-85. On top of a Soviet decision earlier this year to hold oil exports to the bloc countries at the 1980 level of 80 million metric tons, this new decision has come as a shock to Moscow's "fraternal allies." In the wake of the army's crackdown in Poland, this most recent move by the USSR could push a number of countries in Soviet-Europe to the brink of economic insolvency and political collapse.

In the event the Soviet Union follows through with its intention, the CIA study predicts a significant drop in Eastern Europe's present rate of growth: from 2.3% to 1.7%. In the case of Hungary, the projected cutback in Soviet oil shipments would result in a two-thirds reduction in its planned rate of growth, from 1.9% to 0.7%; for Czechoslovakia, the agency study predicts a startling drop of about 80%, from 1.3% to a mere 0.3%.

For the past two decades, the Soviet Union provided its Eastern European clients with cheap energy supplies. The result has been relatively impressive growth (through the middle 1970s, it averaged 7%) and increased political stability for the domestic Communist regimes.

But consider that between 1976-1980, the Soviet Union exported 64 billion kilowatt hours of electricity, 88 billion cubic meters of natural gas and over 400 million tons of petroleum and petroleum products to its European partners. Though Soviet prices for these commodities have in fact been rising since the OPEC-induced increases of 1974 (by about 280%), Western analysts consider this new move to be especially threatening to the hard-won stability of Eastern Europe.

The Soviet leadership is aware of the potential dangers associated with such a draconian move. But its own economy is in disarray. The Soviet Union has become increasingly dependent on Western imports, notably grain and high-technology manufactured goods. The Soviet Union wants to increase its hard currency earnings. Currently 50% of them are derived from petroleum sales, primarily to Western Europe. Moscow has now decided that the risks to its own security in denying its European allies 10% of their previous oil shipments will be compensated for by increased purchases from the West. In this instance, the USSR has apparently decided to put its "national" interest above the larger interest of the "socialist state community."

The policy options for Eastern Europe in the aftermath of this new development are not promising. Various countries in Eastern Europe have attempted to expand their petroleum imports from OPEC in an effort to diversify their energy resources over the past decade. With the exception of East Germany, however, which exports finished manufactured goods, the European-bloc countries do not sell products that are in great demand in the Middle East today. In the absence of "barter deals," therefore, the Eastern Europeans are now being forced to purchase additional amounts of oil from OPEC with a dwindling amount of hard (Western) currency, at the expense of badly needed consumer and technology imports from the West.

Moreover energy conservation programs have not worked out well in Eastern Europe, where managers are awarded for fulfilling the plan and maintaining work discipline rather than for energy savings. One recent report on energy conservation efforts in Hungary's relatively efficient enterprises found an "appalling picture" of waste. Informed Western estimates are that the centralized economies of Eastern Europe consume between 70%-80% more energy than their capitalist neighbors.

The political ramifications of Eastern Europe's energy dilemma are, if anything, more ominous. Consumer welfare has become a major concern for Europe's unelected Communist leadership. While escalating energy prices have forced these regimes to cut back on the production of consumer goods in the past, this most recent Soviet action will undoubtedly push the price of gasoline, heating oil and electricity even higher.

If these new cutbacks in Soviet petroleum supplies have the effect that many in the West now believe they will, Moscow may be forced to reckon with a mass revolt the likes of which it has never seen. The Reagan administration should approach this new potential for continental upheaval with caution.

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